



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audits Division
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May 27, 2003

MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico, Field Office Director

SUBJECT: Victor Valley Wastewater Reclamation Authority
Victorville, California
Public Assistance Identification Number 071-91117
FEMA Disaster Number 0979-DR-CA
Audit Report Number DO-08-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the Victor Valley Wastewater Reclamation Authority, Victorville, California (Authority). The objective of the audit was to determine whether the Authority expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Authority received a public assistance award of \$8.2 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency and permanent repairs to facilities damaged as a result of flooding that occurred from January 5, 1993, to March 20, 1993. The award provided 75 percent FEMA funding for four large projects.¹ The audit covered the period from January 5, 1993, to September 12, 2000, and included a review of all four projects. The attached exhibit provides a schedule of the audited projects.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit

¹ Federal regulations in effect at the time of the disaster defined a large project as one costing \$41,300 or more and a small project as one costing less than \$41,300.

included a review of FEMA's, OES', and the Authority's records, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The Authority's claim included questionable costs of \$362,799 for project 95364 (FEMA's share - \$272,099). The questionable costs consisted of \$148,284 of unsupported force account equipment costs, \$82,086 of ineligible equipment operating costs, \$81,856 of excess charges, \$41,629 of costs covered under FEMA's statutory administrative allowance, \$5,000 of non-disaster related costs, and \$3,944 of unsupported force account labor costs.

Finding A - Unsupported Force Account Equipment Costs

The Authority's claim included \$148,284 for force account equipment costs not supported with documentation proving the equipment was used and costs were incurred. The support for the claim consisted only of two consolidated summary spreadsheets of weekly hours claimed for each item. The spreadsheets were not supported with equipment usage logs, daily work reports, operator logs, or similar documents showing the actual hours the equipment was used for disaster work. An Authority official stated that additional documents to support the claim were not maintained.

The Authority claimed 24 hours operating time per day for the equipment. Although there were no source documents maintained to identify the operating hours per item, the Authority provided logs of generator usage that showed the operating time to be significantly less than 24 hours per day. According to the Authority, these logs were maintained for five generators for a portion of the claim period, but the Authority was unable to determine whether the equipment was owned or rented. No other logs were maintained for any of the force account equipment claimed. Also, there was no equipment inventory listing maintained during the disaster recovery period. According to Title 44, Code of Federal Regulations, Section 13.20(b) [44 CFR 13.20(b)], the Authority is required to maintain accounting records that identify how FEMA funds are used. The following table identifies the force account equipment, the period covered, and related questioned costs.

Description	Period Covered	Amount Questioned
Pumps	Jan. 19, 1993 to May 31, 1993	\$ 82,200
Pickup Truck	Jan. 19, 1993 to May 31, 1993	24,660
Flatbed Truck	Jan. 19, 1993 to May 31, 1993	5,760
Loader	Jan. 19, 1993 to May 31, 1993	3,840
Tractor	Jan. 19, 1993 to May 31, 1993	1,560
Generator	Jan. 19, 1993 to May 31, 1993	3,288
Pumps	Sept. 1, 1993 to Nov. 30, 1993	24,720
Generator	Sept. 1, 1993 to Nov. 30, 1993	2,256
Total		<u>\$148,284</u>

The Authority's claim was based on the FEMA Schedule of Equipment Rates that incorporates equipment operating costs, such as fuel and repairs. FEMA uses these rates to reimburse applicants for the costs of actual hours applied to eligible disaster work and does not provide reimbursement for equipment standby time or maintenance related activities. Since the Authority did not provide source documentation showing the actual number of hours the equipment was operated, the \$148,284 was questioned.

Finding B - Ineligible Equipment Operating Costs

The Authority claimed direct project costs of \$82,086 for equipment operating costs already incorporated in the FEMA Schedule of Equipment Rates. The following table identifies the operating costs.

Description	Period Covered	Amount
Fuel and equipment repairs	Jan. 5, 1993 to May 31, 1993	\$66,887
Equipment repair	June 1, 1993 to Aug. 31, 1993	4,349
Fuel and equipment repairs	Sept. 1, 1993 to Nov. 30, 1993	10,850
Total		<u>\$82,086</u>

According to 44 CFR 206.228(a), reimbursement for ownership and operation costs of applicant-owned equipment used to perform eligible work shall be provided in the equipment usage rates. In addition, the FEMA Public Assistance Guide provides that equipment usage rates include operation, insurance, depreciation, and maintenance. Consequently, the \$82,086 was questioned.

Finding C – Excess Charges

The Authority's claim included \$81,856 for materials and contracts that exceeded the eligible costs shown on the detailed listings as approved by FEMA Region IX (Region). According to 44 CFR 13.20(b), the Authority is required to maintain accounting records that identify how FEMA funds are used.

The Authority provided a consolidated listing of all disaster expenditures for the project claimed, but the listing did not correspond to the operation periods on the Disaster Survey Reports or to the cost categories approved, such as materials, contracts, etc. Also, the listing contained ineligible expenditures, such as equipment operating costs, interest payments, and administrative expenses. The audit did not disclose any additional eligible expenses on the consolidated listing that were not included on the detailed listings of eligible costs approved by the Region. As noted below, the Authority was unable to provide any information or documentation to explain the amount claimed in excess of the detailed listings as approved by the Region.

In one instance, project records supporting the claim did not include support for \$63,343. The Authority claimed a sum of \$142,653 for contract costs from September 1, 1993, through November 30, 1993, but the detailed listings of eligible contract costs approved by the Region totaled only \$79,310. No information or documentation was available to explain, identify, or support the excess charges of \$63,343.

In the other instance, project records supporting the claim did not include support for \$18,513. The Authority claimed a sum of \$71,161 for materials charged from June 1, 1993, through August 31, 1993, but the detailed listing of eligible costs for materials approved by the Region totaled only \$52,648. No information or documentation was available to explain, identify, or support the excess charges of \$18,513.

Since the Authority could not explain, identify, or support the excess charges, the \$81,856 was questioned.

Finding D - Costs Covered Under FEMA's Statutory Administrative Allowance

The Authority claimed \$41,629 in costs covered by FEMA's statutory administrative allowance. According to 44 CFR 206.228(a)(2)(ii), the Authority is reimbursed for the direct and indirect costs associated with requesting, obtaining, and administering public assistance based on a statutory percentage allowance. Based on direct costs claimed by the Authority, FEMA paid an administrative percentage allowance of \$76,955. However, the Authority also claimed the following costs related to administering the project as direct project costs.

Description	Period Covered	Amount
Legal fees	Jan. 5, 1993 to Apr. 30, 1993	\$ 8,493
Legal fees	June 1, 1993 to Aug. 31, 1993	29,412
Reports	Sept. 1, 1993 to Nov. 30, 1993	26
Permit Renewal	Sept. 1, 1993 to Nov 30, 1993	3,567
Film Processing	Sept. 1, 1993 to Nov. 30, 1993	44
Freight Charges	October 19, 1993	40
AC Adapter	November 9, 1993	47
Total		<u>\$41,629</u>

Since the regulations limit administrative costs to the percentage allowance, such costs claimed as direct project costs are ineligible for FEMA reimbursement. Therefore, the \$41,629 was questioned.

Finding E - Non-Disaster Related Costs

The Authority's claim included \$5,000 in settlement for damage caused to private property. While performing disaster repairs, Authority employees did not use reasonable care and

damaged private property. This resulted in the property owner filing a formal complaint against the Authority, accusing their employees of negligence. As a goodwill gesture and to avoid legal ramifications, the Authority agreed to settle the claim without accepting responsibility for the damage. According to 44 CFR 206.223, an item of work must be the applicant's legal responsibility to be eligible for financial assistance and no federal assistance is available for damages caused by the applicant's own negligence. Consequently, the \$5,000 settlement was questioned.

Finding F - Unsupported Force Account Labor Costs

The Authority's claim included \$3,944 of force account labor costs for 207 labor hours that were not supported with documentation proving the charges were disaster related. According to 44 CFR 13.20(b), the Authority is required to maintain accounting records that identify how FEMA funds are used and that contain supporting documentation, such as payroll and time and attendance records. For one employee, the Authority claimed 1,067 hours of disaster work; however, payroll records only supported 860 hours for the disaster. Therefore, the \$3,944 for the unsupported 207 labor hours (1,067 hrs minus 860 hrs) was questioned.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$362,799 in questionable costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

The OIG discussed the audit results with Authority and OES officials on April 10, 2003. The Authority official subsequently provided a written response contesting \$209,652 of the questioned costs. However, the response contained some clerical errors, and otherwise there was insufficient documentation for the OIG to adjust any of the questioned costs. The OIG also provided the Authority's response and audit results to FEMA Region IX officials on April 21, 2003.

Pursuant to FEMA Instruction 1270.1, please advise this office by July 28, 2003, of the actions taken to implement the OIG recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Jack Lankford and Paulette Solomon.

Schedule of Audited Projects
Victor Valley Wastewater Reclamation Authority
Victorville, California
FEMA Disaster Number 0979-DR-CA

<u>Project Number</u>	<u>Amount Approved</u>	<u>Amount Questioned</u>	<u>Finding Reference</u>
95364	\$3,653,181	\$362,799	A, B, C, D, E, & F
41494	4,467,217	0	
95606	28,119	0	
95603	42,538	0	
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Totals	<u>\$8,191,055</u>	<u>\$362,799</u>	